

SUMMARY REPORT
PERTAINING TO THE SALE OF REAL PROPERTY
(California Community Redevelopment Law Section 33433)

PURSUANT TO A PROPOSED DISPOSITION AND DEVELOPMENT AGREEMENT

Between:

SAN DIEGO REDEVELOPMENT AGENCY

And:

MCMILLIN-NTC, LLC, A DELAWARE LIMITED LIABILITY COMPANY

Prepared by:

KEYSER MARSTON ASSOCIATES, INC.

For:

REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO

Date:

June 6, 2000

SUMMARY REPORT
PERTAINING TO THE PROPOSED PURCHASE AND SALE OR LEASE OF REAL
PROPERTY
NAVAL TRAINING CENTER

INTRODUCTION

The Redevelopment Agency of the City of San Diego (Agency) is considering the sale and ground lease of property located within the Naval Training Redevelopment Project Area to McMillin-NTC, LLC, a Delaware Limited Liability Company, (Master Developer).

This Summary Report is prepared in accordance with Section 33433 of the California Community Redevelopment Law. It consists of six additional sections, as follows:

Section II, Description of the Proposed Agreement

Section III, Estimated Cost to be incurred by the Agency under the Proposed DDA.

Section IV, Estimated Value of the Site at the Highest and Use.

Section V, Estimated Fair Reuse Value of the Interest to be Conveyed.

Section VI, Purchase Price which the Master Developer will be Required to Pay.

Section VII, Explanation of Why Sale or Lease of the Property will Assist in Elimination of Blight.

DESCRIPTION OF THE PROPOSED AGREEMENT

Proposed Transaction

NTC consists of approximately 550 acres, of which 502 acres were included in the original Declaration of Surplus, and 48 acres were retained for the Fleet Anti-Submarine Warfare Training Center. Shortly after the Declaration of Surplus, the local Navy command requested that the City of San Diego return approximately 71 of the 502 acres for redevelopment as military family housing and to provide support facilities for active duty military personnel. As a result, approximately 431 acres were made available for fair reuse planning by non-military agencies.

The City of San Diego adopted a final NTC Reuse Plan for the 431-acre site and the Navy has signed a Record of Decision agreeing to the Reuse Plan. Approximately 65% (279 acres) of the Project Area has been conveyed to the City through an Economic Development Conveyance (EDC). The remaining 35% is being requested through Public Benefit Conveyances (PBCs) or other methods of transfer. Just under two (2) acres have already been transferred through a federal-to-federal transfer to the Immigration and Naturalization Service. After conveyance from the Navy, the City of San Diego proposes to convey 235 acres (Site) (279 acres less Public Safety Training Institute (PSTI), Harbor Drive, and Pump Station) to the Agency.

In May 1997, NTC was designated as a redevelopment project pursuant to California Community Redevelopment Law. The property is located near downtown San Diego at the north end of San Diego Bay west of Lindbergh Field in the Point Loma community. The boundaries of the site are Lindbergh Field and the Marine Corps Recruit Depot on the east, Lytton Street on the north, Rosecrans Street on the west and Nimitz Blvd. And Harbor Drive on the south.

The Master Developer is proposing to develop the 235-acre Site with the following land uses and to the indicated intensities:

DPU	Subarea	Land Use	Product Type	SF	Gross Area ⁽¹⁾
1.1	Historic Core	Commercial	Office	240,000	12.6
1.2	Educational	Commercial	R & D	140,000	8.1
1.3	Residential	Residential	Residential	350 DU's	35.2
1.4	Camp Nimitz	Commercial	Hotel	650 Rm's	15.5
1.5	Waterfront & Recreation	Commercial	Hotel	350 Rm's	18.7
1.7	Waterfront & Recreation	Open Space	Parking/Parks	-	12.2
1.8	Waterfront & Recreation	Open Space	Parking	-	11.5
2.1	Educational	Educational	Educational	436,000	21.4
2.2	Historic Core	Mixed-Use	Historic	-	19.6
2.3	Waterfront & Recreation	Commercial	Office/Officers Qtrs.	-	7.0
2.3A	Officers Quarters	Commercial	Office/Officers Qtrs.		
2.3B	Historic Office	Commercial	Office/Officers Qtrs.		
2.4	Residential	Residential	Gym & Fire Station	-	3.0
2.5	Historic Core	Commercial	Historic	-	5.2
2.6	Historic Core	Civic	Historic	-	6.3
2.7	Historic Core	Commercial	Historic	-	5.4
2.8	Historic Core	Commercial	Historic	-	9.3
2.9	Waterfront & Recreation	Commercial	Historic	-	9.5
3.3	Waterfront & Recreation	Commercial	Golf Course	-	20.8
3.5	Waterfront & Recreation	Civic	Community Center	-	2.7
4.1	Camp Nimitz	Other	Public Safety Training Institute(PSTI)	-	24.7
	Boat Channel South	Other		-	11.1
	Harbor Drive	Other			18.6
	City Pump Station	Other		-	0.5
	Total				278.9

⁽¹⁾ The land areas detailed above are estimates based on existing data and on planimeter analysis of the NTC site. The numbers are meant to serve as rough estimates only, until such time as the property is formally surveyed and detailed site plans are available.

The draft Disposition and Development Agreement (DDA), including all attachments, but specifically Attachment No. 7, Participation Agreement, governs the business relationship between the Agency and the Master Developer with respect to the proposed development of the Site.

Agency Responsibilities

Under the DDA, the Agency is responsible for the following:

Agency shall secure approvals from California State Lands Commission for disposition and development of the Tideland Trust Parcels.

Agency shall acquire Site from City. City accepted conveyance from Navy through an Economic Development Conveyance (EDC) process.

Agency shall convey Site to Master Developer

Agency shall lease Civic, Arts, and Cultural District portion of Historic Core to the Civic, Arts, and Cultural Foundation (Foundation) formed by Master Developer

Agency shall lease Mixed-use District portion of Historic Core to Master Developer

Developer Responsibilities

The DDA also includes the Master Developer's responsibilities as follows:

The Site shall be developed in accordance with and within the limitations established in the Reuse Plan.

All costs to finance and construct all of the proposed development pursuant to the Scope of Development (Reuse Plan), Schedule of Performance and Participation Agreement attached to the DDA.

All necessary plans, designs, and construction documents for the proposed development.

Master Developer is responsible for all entitlement and planning costs.

Master Developer shall be responsible for all community outreach and marketing.

Master Developer shall be responsible for all site clearance and demolition upon conveyance of a parcel.

Master Developer is responsible for all infrastructure, design and construction (horizontal) costs.

All development costs including any cost overruns shall be the responsibility of the Master Developer or its assignee without any cost or liability to the Agency except for additional requirements imposed by the Agency or City.

After completion of horizontal improvements, Master Developer shall convey development parcels to builder(s) for construction of buildings and other improvements (Vertical Improvements).

Master Developer shall provide performance bonds for park improvements, Historic Core, Educational Core, Infrastructure and require builders to secure similar performance bonds for all vertical improvements.

Master Developer shall contribute \$2 million toward the initial establishment and operation of the Civic, Arts and Cultural Foundation (Foundation). The Foundation will be responsible for the rehabilitation, leasing, management and maintenance of the Civic, Arts, and Cultural District portion of the Historic Core.

Master Developer shall advance/reimburse Agency and or City Site management costs, net of income, and Agency administrative costs, subject to a maximum amount of \$4,200,000. This amount includes Master Developer's unrecovered property management costs.

Master Developer shall assist the Foundation with funding for the rehabilitation of the historic buildings in the event that outside funding is not available or is delayed and Master Developer shall guarantee the completion of the improvements by providing performance bonds in amounts not to exceed \$24 million.

Master Developer will provide construction management services to complete improvements in the Civic, Arts and Cultural District.

Master Developer shall be responsible for preparing the Mixed-Use portion of the Historic Core for development by builders. This area shall be conveyed to Master Developer and individual developers (builders) by ground lease.

The Master Developer shall fund landscaping and improvements of park and open space areas as a marketing incentive to potential users and buyers subject to a cap of \$14,779,800.

Master Developer shall contribute 100,000 SF of the Educational Core to a City designated educational organization.

Master Developer shall contribute 10,000 SF to a City Department.

III. ESTIMATED COST TO BE INCURRED BY THE AGENCY UNDER THE PROPOSED AGREEMENT

The Agency costs to date are detailed below. The DDA requires the Master Developer to advance or reimburse the Agency for future administration and property management costs incurred up to a maximum of \$4,200,000 which also includes net property management costs incurred by Master Developer. Additional costs above this amount shall be borne by the Agency.

Cost to date of the Agreement to the Agency:

Total Expenditures		\$7,161,330
Less Contributions from Others:		
Federal Grant	\$ 735,745	
CDAM Grant	\$ 22,414	
Developer Deposit	<u>\$ 439,480</u>	
Subtotal Contributions from Others		<u>\$1,197,639</u>
Total Agency Cost to Date		\$5,963,690

Source: City of San Diego, Economic Development & Community Services Department

IV. ESTIMATED VALUE OF THE SITE AT THE HIGHEST USE PERMITTED

This section presents an analysis of the fair market value of the Site at the highest and best use of the property. In appraisal terminology, the highest and best use is that use of the property which generates the highest property value and is physically possible, financially feasible, and legally permitted. Therefore, value at highest and best use is based solely on the value created and not on whether or not that use carries out the redevelopment goals of the City of San Diego.

The Reuse Plan was produced over a two-year period with intensive public involvement and outreach and represents recommendations of the San Diego City Council and the NTC Reuse Planning Committee. Any proposed land use changes on the Site would involve a lengthy process involving community groups, the City and other regulatory agencies. Based on these assumptions, KMA concludes that other types of development or increases in the intensity of land use would not be feasible. Using the same assumptions for the Site but excluding the mandated DDA requirements would result in a value for the Site at its highest and best use to be \$8,300,000.

The current proposal based on the Reuse Plan is in our opinion, the highest and best use of the Site since any deviation from the Reuse Plan is very unlikely.

On this basis, then, the value of the Site at highest and best use is \$8,300,000 (rounded) and greater than the fair reuse value.

V. ESTIMATED FAIR REUSE VALUE OF THE INTEREST TO BE CONVEYED

This section presents an analysis of the fair reuse value of the interest to be conveyed to the Master Developer subject to conditions, covenants, and restrictions contained in the proposed DDA. In estimating the fair reuse value of the Site, KMA has reviewed the requirements that establish specific conditions with respect to the scope of development, the schedule of performance, and method of financing.

The DDA as proposed contains specific covenants and conditions designed to ensure that the development parcels are developed in a manner that achieves the Agency's objectives, standards, and criteria for such uses under the Reuse Plan. These covenants and conditions include the following:

The Site shall be developed in accordance with and within the limitations established in the Reuse Plan.

Master Developer shall finance all costs to finance and construct all of the proposed development pursuant to the Scope of Development and Schedule of Performance attached to the DDA.

Master Developer shall be responsible for all-necessary plans, designs, and construction documents for the proposed development.

Master Developer shall advance/reimburse Agency and or City Site management costs and Agency administrative costs up to a maximum amount of \$4,200,000 which also includes net property management costs incurred by Master Developer.

Master Developer is responsible for all entitlement and planning costs.

Master Developer shall be responsible for all community outreach and marketing.

Master Developer shall be responsible for all site clearance and demolition upon conveyance of a parcel.

Master Developer is responsible for all infrastructure, design and construction (horizontal) costs.

All development costs including any cost overruns shall be the responsibility of the Master Developer or its assignee without any cost or liability to the Agency except for additional requirements imposed by the Agency or City.

After completion of horizontal improvements, Master Developer shall convey development parcels to builder(s) for construction of buildings and other improvements (Vertical Improvements).

Developer shall provide performance bonds for park improvements, Historic Core, Educational Core, Infrastructure and require each builder to provide similar performance bonds for vertical improvements.

Master Developer shall contribute \$2 million toward the initial establishment and operation of the Civic, Arts and Cultural Foundation. The Foundation will be responsible for the rehabilitation and maintenance of the Civic, Arts, and Cultural District portion of the Historic Core.

Master Developer shall assist the Foundation with funding for the rehabilitation of the historic buildings in the event that outside funding is not available or is delayed and guarantee through the provision of performance bonds, the completion of the improvements an amount not to exceed \$24 million.

Master Developer will provide construction management services to complete improvements in the Civic, Arts and Cultural District.

Master Developer shall be responsible for preparing the Mixed-Use portion of the Historic Core for development by builders. This area shall be conveyed to developers (builders) by ground lease.

The Master Developer shall fund landscaping and improvements of park and open space areas as a marketing incentive to potential users and buyers, subject to a cap of \$14,779,800.

Master Developer shall contribute 100,000 SF of the Educational Core to a City designated educational organization.

Developer shall contribute 10,000 SF to a City Department.

KMA has reviewed these conditions, covenants, and development costs required by the DDA in conducting an analysis of the fair reuse value of the interest to be conveyed. KMA has separately reported to the Agency that, based on analyses of the residual land value and comparable sales, the fair reuse value of the interest to be conveyed is \$800,000 (rounded).

KMA has concluded that the proposed development at the highest and best use of the Site is greater than the fair reuse value of the interest to be conveyed due to the restrictions imposed in the DDA.

VI. PURCHASE PRICE WHICH THE DEVELOPER WILL BE REQUIRED TO PAY

Under California Community Redevelopment Law, the Agency is obligated to publicly disclose information sufficient for a comparison of the purchase price contained in the proposed DDA with the estimated fair reuse value. In order to facilitate such a comparison, KMA has separately evaluated the financial terms contained in the proposed DDA.

The proposed purchase price is dependent on Attachment No. 7 to the DDA, the Participation Agreement, which provides for a method of compensation to be paid the Agency. The Master Developer is required to divide the net cash flow, if any, with the Agency on a 50/50 basis. Based on the current valuation, net cash flow is expected to be nominal due to the Developer's receipt of a preferred rate of return of 12% of gross revenues before cash flow and the uncertainty of market conditions. However, in the event that Community Facilities District (CFD) bond financing is utilized by the City as a mechanism for financing infrastructure, the revenue to the Agency could increase.

Based on the inherent risks involved in this transaction as described in this report, KMA estimates that total compensation to be received by the Agency under the proposed DDA will be nominal.

VII. EXPLANATION OF WHY SALE OF THE PROPERTY WILL ASSIST IN ELIMINATION OF BLIGHT

The Naval Training Center (NTC) Redevelopment Project Area is characterized by an array of blighting factors. The property is located in the middle of the City in close proximity to other blighted areas that are already designated for redevelopment. The successful redevelopment of NTC will be the key component in revitalization efforts in the Midway community, which is adjacent to the property.

The reuse planning for NTC has many of the same re-planning problems/issues that have been experienced by other military bases. NTC presents infrastructure and reuse problems because the base was designed and constructed over time to meet the needs of a very specific user, and those problems must be corrected before the base can be put to civilian use. NTC was designed and developed as one contiguous ownership with no provision for subdivision of the property. There are no dedicated streets or utility easements. The base has about 250 buildings or facilities containing more than 3.4 million square feet of space. The ages of the buildings vary from more than 70 years to newly constructed and occupied, and the condition of each building varies from excellent to substandard or obsolete.

The utility systems that serve the property have evolved over time without the need for separately metered services or compliance with current urban standards.

The property has been primarily a pedestrian environment with relatively minor internal vehicle accommodation, little intrusion from external vehicles and with public transportation principally confined to adjacent (external) public streets.

The NTC property meets the definition of blight as defined under California Redevelopment Law as described in this Section VII.

Economic Blight

With a closed military base, a unique set of circumstances is presented. The property was formerly occupied by the military; thus, there are no historic property values, vacancies, retail sales, nor other activity in the usual sense. Current values cannot be documented through sales transactions, rents or other performance indicators within a base since the property has not been made available to the private market. The land value in the surrounding community cannot be assumed for the base as the base typically needs to be discounted for above-average infrastructure and other land improvement problems that need to be corrected in adapting the base to private market use.

Of the five categories of economic blight identified in the law, four categories are present in the Project Area and will persist into the future unless mitigated through redevelopment action. The four categories are:

Depreciated or stagnated property values.

Impaired investment

Hazardous or toxic material.

High vacancy rates.

Physical Blight

The physical blight affecting economic conditions are as follows:

The deficient and deteriorated conditions of existing public improvements such as roadways and infrastructure for supporting existing use or new development, which will require significant costs to upgrade. These deficient improvements include streets of substandard width, deteriorated paving, deteriorated, substandard, and missing curbs, gutters and sidewalks, inadequate and dated storm drainage system, and a general lack of sidewalks and other pedestrian amenities.

The significant number of deficient buildings and structures. Asbestos is also present in a large number of buildings. Many of the buildings are not up to City and State codes, including the requirements of the American Disability Act (ADA).

Weak access and inadequate integration of the Project Area streets with the existing circulation system serving this portion of the community.

The presence of toxic or hazardous materials throughout the Project Area as documented in BRAC Cleanup Plan (BCP), Naval Training Center, San Diego, California, March 1995, including at least 14 sites identified as requiring restoration and 92 sites with potential for an environmental concern. One of the 14 restoration sites is a 32-acre inactive landfill with approximately 2.2 million cubic feet of refuse from activities at MCRD and NTC.

A physical layout that is designed to function independently as a secure military unit and bears little or no relationship to surrounding areas outside of the base.

A street pattern that has grown by accretion over the years as the use of the base has

changed. This process has resulted in the connection of the various areas of the base by substandard, haphazardly placed roads.

An ownership pattern typical of military installations, e.g., one ownership that requires a detailed engineering survey and subdivision mapping process.

Buildings of substandard design, defective physical construction, and less-than-standard materials that were justified on an emergency basis under wartime conditions. Many of these buildings were constructed at NTC during World War II.

The military program of toxic clean up presents unique circumstances that may affect value. The presence of asbestos, whether or not encapsulated and whether or not the source of a genuine hazard, may be perceived as a stigma and, as a result, have a real effect on value.

Aging and substandard self-contained water, sewer, electrical, telephone, steam distribution, and storm drainage systems. Most of these systems require extensive upgrading or replacement in order to adequately support economic civilian reuse and adaptation and connection the systems of local civilian providers.

Specialized military buildings that are difficult if not impossible to convert to civilian use. Buildings of this type at the base include the specialized training facilities such as the Fire Fighting School, Welding School and the Support Center.

Widely separated buildings that were located to minimize damage from fire and blast under wartime conditions.

Utilities that in some instances are located where they interfere with civilian development of sites.

Infrastructure Deficiencies

Substandard, deficient and deteriorated public improvements or infrastructure have been documented as a major physical blighting condition, and one of critical impact on values and investment potential.

Property Values and Rents

In the case of NTC, there are a number of factors that could have a negative impact on property values.

Not an established commercial or business location due to the Project Area's historic use as a military base.

Environmental considerations, such as the noise generated by the airport traffic and the stigma associated with a hazardous clean up. If there is a lengthy clean-up period, it will effect the marketability and absorption of some properties.

Regulatory constraints, as the Project Area is subject to (1) the Tidelands Trust requirements for public access protection, (2) the land use restrictions of the California Coastal Act, and (3) the runway protection zones and the CNEL noise impact areas created by the airport. In addition, the northernmost part of Camp Nimitz is a least tern nesting preserve. Many of the buildings within the Area are also on the National Historic Register, which subject them to the rehabilitation provisions of the National Historic Preservation Act.

The presence of hazardous materials, such as lead paint on the walls, asbestos in floor coverings, and acoustical plaster ceilings in some of the buildings. The existence of these materials will have a significant effect on values and rents for properties on the base.

A significant fee burden could likely to be imposed on developments within the Project Area because of substantial infrastructure and other site improvements costs. This burden may be in the form of development fees, special taxes, Mello Roos or other assessments.

Implementation of the proposed development (pursuant to the DDA) can be expected to assist in the alleviation of blighting conditions through the following:

Creation of new employment opportunities, both in terms of construction jobs and permanent employment in the completed facilities.

Opening significant opportunities for the surrounding community to uses rehabilitated and adapted facilities and recreational uses developed on the property.

Demolition of blighted and unnecessary buildings and structures.

New infrastructure systems such as utilities, streets and related facilities.

Enhanced landscaping, redeveloped public spaces and remodeled recreation facilities, such as the golf course.

Adaptive reuse of a major portion of the Historic Core for civic, arts and cultural uses benefiting the greater San Diego community.

Enhancement of sales tax revenue to the City's General Fund.

Generation of significant Transient Occupancy Taxes to the City's General Fund for hotel development.

Generation of property taxes from private uses.

Property value enhancement to all properties surrounding the project area resulting from new development, rehabilitation and adapted buildings.

Additional commercial facilities serving the surrounding community.